

ISSUE DATE: August 22, 1995

DOCKET NO. P-421/D-95-125

ORDER CERTIFYING PROPOSED LIFE AND SALVAGE FACTORS



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm  
Tom Burton  
Joel Jacobs  
Marshall Johnson  
Dee Knaak

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of U S WEST Communications,  
Inc.'s Request for Certification of  
Depreciation Rates for 1995

ISSUE DATE: August 22, 1995

DOCKET NO. P-421/D-95-125

ORDER CERTIFYING PROPOSED LIFE  
AND SALVAGE FACTORS

**PROCEDURAL HISTORY**

On May 15-17, 1995, the triennial three-way meeting between representatives of U S WEST Communications, Inc. (USWC or the Company), the Federal Communications Commission (FCC), and Minnesota's regulatory agencies was held in Minneapolis.

On June 14, 1995, USWC filed a petition requesting approval of depreciation life and salvage values for 1995.

On July 13, 1995, the Minnesota Department of Public Service (the Department) filed its comments.

On August 15, 1995, the Commission met to consider this matter.

**FINDINGS AND CONCLUSIONS**

**A. Background**

Every three years, representatives of the FCC, USWC, and Minnesota regulatory agencies meet to discuss positions on the Company's proposed life and salvage values. At this year's meeting held in Minneapolis on May 15-17, 1995, the state regulatory agencies represented were the Commission, the Department, and the Residential Utilities Division of the Office of the Attorney General (RUD-OAG).

**B. Proposed Life and Salvage Factors**

USWC originally proposed life and salvage factors which would have increased Minnesota intrastate depreciation expense by approximately \$62 million. Following changes negotiated during the three-way meeting, the factors proposed in the current filing would increase the Company's intrastate depreciation expense by \$27.1 million.

### **C. Implementation Date**

USWC proposed that the revised depreciation rates agreed to by the parties be applied on a prospective basis, effective with accounting periods after the date of the Commission's Order.

The Department opposed the Company's proposal for a prospective implementation date for the proposed factors, as it has opposed similar requests from other companies in the past. The Department argued that since the Company's study is based on the most recent year-end plant and reserve balances, it would be more logical and accurate to reflect the revised depreciation rates throughout 1995. The Department noted that delay in implementing the revised factors would base depreciation expense for a large portion of the year on rates that do not reflect the most recent plant activity.

### **D. Commission Analysis**

Generally, the Commission has ordered annual changes in depreciation factors to be effective January 1 of the applicable year. This is because changes in depreciation lives and salvage values are based on account balances and experience through the prior year.

The Commission finds no reason to deviate from that approach in this case. USWC's proposed service lives and salvage values are reasonable based on

- year-end 1994 plant and reserve balances,
- the Company's recent retirement experience, and
- expectations for future retirements.

This being the case, it is most accurate to implement changes in those factors on January 1. In that way, depreciation expense for the full year will be based on the most current and accurate life and salvage factors.

### **E. Commission Action**

Based on its analysis of this matter, the Commission will approve the service lives and salvage factors negotiated at the three-way meeting and order that the revised depreciation rates be used to determine depreciation expense beginning January 1, 1995.

To clarify the scope of this Order: the depreciation rates and methods certified in this Order are binding on all future rate proceedings and remain in effect until the next depreciation certification or until otherwise changed by the Commission. Minn. Rules, part 7810.8000. Specific dollar amounts of gross plant, depreciation reserve, annual accrual and dollars to be

allowed as additional depreciation are subject to audit, however, and the inclusion of items in this Order for depreciation purposes does not guarantee their inclusion in the rate base and income statement for ratemaking purposes.

Companies are required by law to review their depreciation rates annually to ensure that they are still generally appropriate. Minn. Rules, part 7810.7500. The Commission will also require the Company to file a three-year depreciation petition based on its next three-year review.

### **ORDER**

1. The Commission certifies the following service lives and net salvage values on the basis of the depreciation study submitted by US WEST Communications, Inc. (USWC):

Acct. No.	<u>Class of Utility Plant</u>	<u>Remaining Service Life (Years)</u>	<u>Estimated Future Net Salvage (%)</u>	<u>Depreciation Rate (%)</u>
2112	Motor Vehicles	4.7	10	8.8
2114	Special Purpose Vehicles	6.5	0	5.4
2115	Garage Work Equipment	9.3	0	18.5
2116	Other Work Equipment	10.8	8	5.1
2121	Buildings	28	6	2.7
2122	Furniture	7.8	1	27.7
2123.1	Office Equipment	7.6	0	10.8
2123.2	Company Comm Equipment	4.4	-2	12.6
2124	General Purpose Computers	3.2	5	13.5
2211	Analog Switch Equipment <sup>1</sup>	2.3	0	20.3
2212	Digital Switch Equipment	7.2	3	9.8
2220	Operator Systems	6.1	0	2.3
2231	Radio Systems	3.1	-3	14.5
2232	Circuit DDS	5.6	0	16.1
2232	Circuit Digital	5.7	0	10.4
2232	Circuit Analog	3.2	0	12.7
2351	Public Tel Term Equipment	5.7	5	4.7
2362	Other Terminal Equipment	3.9	7	4.6
2411	Poles	6.4	-69	6.0
2421	Aerial Cable-Metal	9.7	-24	6.9
2421	Aerial Cable-NMetal	10.6	-24	10.8
2422	Underground Cable-Metal	10.7	-7	5.8
2422	Underground Cable-NMetal	15	-7	5.7

---

<sup>1</sup> Figures listed for this item are the average year of final retirement.

2423	Buried Cable-Metal	15.6	-10	5.7
2423	Buried Cable-NMetal	11.3	-10	5.8
2424	Submarine Cable-Metal	4.8	-1	4.4
2424	Submarine Cable-NMetal	18.3	-1	4.5
2426	Intra Bldg Cable-Metal	10.4	-14	4.1
2426	Intra Bldg Cable-NMetal	14.2	-14	6.2
2431	Aerial Wire	3.6	-72	26.3
2441	Conduit Systems	37	-18	2.6

2. Accruals to the depreciation reserve for each RL account shall be calculated by taking the original cost of depreciable plant in the account, subtracting its estimated future net salvage and its associated depreciation reserves, and dividing the difference by the estimated remaining life of the surviving plant in the account.

3. In the event any class of plant shall become fully depreciated by the use of these rates, then no further depreciation accrual for such class of plant shall be made.

4. The Company is scheduled to file its next required 3-year depreciation study by June 15, 1998. The next remaining life study is scheduled to be filed by June 15, 1996.

5. The rates certified in this Order are effective January 1, 1995.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)